

MICHIGAN DEPARTMENT OF TREASURY

Michigan Income Tax Withholding Guide

P.A. 281 of 1967 (as amended)

1. Personal Exemption Amount Increase

The personal exemption amount has increased to **\$2,800** for the year 1998. The withholding rate remains at 4.4 percent.

2. New Hire Option for Employees

Michigan employers must file the MI-W4 20 days after an employee is hired (i.e., the date the employee starts work). See the details on inside cover.

This Booklet Contains:

- Instructions for withholding Michigan income tax from compensation paid to an employee. See page 2.
- Formula for computing withholding directly. See page 3.
- Tables for determining withholding. See page 6.
- ***Employee's Michigan Withholding Exemption Certificate (MI-W4) and a New Hire Reporting Form***

For questions or information, you may contact us at:

Sales, Use and Withholding Taxes Division
Michigan Department of Treasury
Lansing, MI 48922
517-373-3190
www.treas.state.mi.us

WHAT'S NEW THIS YEAR?

Exemption Allowance. The exemption allowance has increased to \$2,800 effective January 1, 1998. The tables included in this booklet reflect the new allowance. See page 3 for the allowance per exemption and for the formula if you are using a software package.

Reporting Newly-Hired Employees. The Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires all employers to report newly-hired employees beginning October 1, 1997. You must report the employee's name, address and Social Security number, and the employer's name, address and federal employer identification number. This information must be reported 20 days after the employee is hired (i.e., the date the employee starts work).

To simplify New Hire reporting, you may report using the *New Hire Reporting Form*, the *Employee's Michigan Withholding Exemption Certificate*, magnetic tape, paper lists, computer reports, or electronic transmission. You are encouraged, whenever possible, to report electroni-

cally. The New Hire Operations Center will work free of charge with any employer wishing to provide data electronically. Multi-state employers may choose to report all new hires to only one state, but they must report electronically and notify the Dept. of Health and Human Services.

For more information on New Hire reporting, call 800-524-9846. If you choose to report on paper, send the reports to:

New Hire Operations Center
P.O. Box 85010
Lansing, MI 48909-5010

You may also fax paper reports to: 517-886-9190.

The Revised MI-W4. The *Employee's Michigan Withholding Exemption Certificate* (MI-W4) has been revised to include renaissance zones residents. If you need a revised form for your employees, or for *Questions and Answers About No-Form*, call 1-800-FORM-2-ME (367-6263). You may also visit us at our web site at: www.treas.state.mi.us

GENERAL INSTRUCTIONS

1. PURPOSE

This guide provides instructions, general information and a summary of the employer's responsibilities for withholding Michigan income tax from "compensation" (as later defined) paid to employees.

2. WHO MUST WITHHOLD

Every employer in this state who is required to withhold federal income tax under the Internal Revenue Code, must withhold Michigan income tax.

3. REGISTRATION AND ACCOUNT IDENTIFICATION

Every person or organization becoming an employer must register with the Michigan Department of Treasury by completing a *Michigan Business Taxes Registration*.

The Michigan employer identification number is usually the same as the federal employer identification number assigned by the Internal Revenue Service.

If you have not been assigned a federal number, Treasury will assign a number. You must give us your federal number as soon as it is assigned.

Any changes in the federal identification number must be reported to Treasury immediately. When acquiring a business, do not use the number assigned to the previous employer.

4. WHO IS AN EMPLOYER

An employer is defined in the Federal Employer's Tax Guide, Circular E, as any person or organization for whom an individual performs any service as an employee. This includes any person or organization paying compensation to a former employee after termination of their employment.

Non-profit organizations that are exempt from income tax, like charitable, religious and government organizations, must withhold tax from compensation paid to their employees.

Employers located outside Michigan that have employees who work in Michigan must register with Treasury and withhold Michigan income tax from all employees working in Michigan. This applies to both Michigan residents and non-residents. (See **Reciprocal Agreements** page 4.)

Employers located in Michigan who assign a Michigan resident employee to work temporarily in another state must withhold Michigan income tax from compensation paid to the employee for work done in another state.

5. WHO IS AN EMPLOYEE

An employee is an individual who performs services for an employer who controls what will be done and how it will be done. It does not matter that the employer permits the employee considerable discretion and freedom of action, as long as the employer has the legal right to control both the method and the result of the services.

For further clarification of the term "employee" see the Federal Employer's Tax Guide, Circular E.

6. EMPLOYEE EXEMPTIONS MI-W4 Withholding Exemption Certificate

Every employer must obtain an MI-W4 Exemption Certificate from each employee. The federal W-4 cannot be used in place of the MI-W4.

The exemption amount is now \$2,800 per year times the number of

personal and dependency exemptions allowed under the Internal Revenue Code. An employee may not claim more exemptions on the MI-W4 than can be claimed on the employee's federal income tax return.

Michigan has additional special exemptions that are claimed on a taxpayer's Michigan income tax return, not on form MI-W4, unless they chose the No-Form program. The exemptions on form MI-W4 are limited to the number of federal exemptions. The additional special exemption is \$900 per year, effective January 1, 1990. Special exemptions provide an extra tax reduction for each person who is: 1) paraplegic, quadriplegic, hemiplegic, blind, or totally and permanently disabled; 2) deaf; 3) 65 years of age or older.

The MI-W4 enables employees to claim exemption from Michigan income tax withholding. Employees may claim exemption from withholding only if they do not anticipate a Michigan income tax liability for the current year because their employment is less than full time and the personal and dependency exemptions exceed their annual compensation.

Any changes made to a MI-W4 invalidate the form. Any writing on the certificate other than entries required is considered a change.

If you receive an invalid certificate, do not consider it for computing withholding. You must inform the employee who submitted the certificate that it is invalid and require the employee to submit a correct Withholding Exemption Certificate. If the employee does not comply, withhold from the employee's total compensation based on zero exemptions. If a prior valid certificate is in effect, continue to withhold in accordance with the prior certificate.

7. SENDING CERTAIN MI-W4 CERTIFICATES

Under P.A. 169 of 1982, employers must submit to Treasury a copy of any form MI-W4 received from a

Payroll Period

	Allowance per Exemption	No Form Option Only	
		Allowance if claimed as a Dependent	Allowance per Special Ex
Weekly	\$ 53.85	19.23	17.31
Bi-weekly (every 2 weeks)	107.69	38.46	34.62
Semi-monthly (twice/month)	116.67	41.67	37.50
Monthly	233.33	83.33	75.00
Quarterly	700.00	250.00	225.00
Semi-annually	1,400.00	500.00	450.00
Annually	2,800.00	1,000.00	900.00
Per day	7.67	2.74	2.47

Withholding Formula

Withholding =

[Compensation - (Allowance per Exemption x No. of Exemptions)] x 4.4%

Example: A worker earning \$600/week with 3 exemptions would have the following withholding.

$(\$600 - [\$53.85 \times 3]) \times 4.4\%$

$(\$600 - \$161.55) \times .044 = \$19.29$

Withholding Formula for Employees Claimed as an Exemption on Another's Return and Filing No Form

Withholding =

(Compensation - Allowance per Exemption x 4.4%)

Example: A worker earning \$80/week with who is claimed on a parent's return would have the following withholding.

$(\$80 - 19.23) \times 4.4\%$

$60.77 \times .044 = \$2.67$

Withholding Formula for Employees With Special Exemptions Choosing No Form

Withholding =

(Compensation - [(Allowance per Exemption x No. of Exemptions) + (Allowance per Special Exemption x No. of Exemptions)]) x 4.4%

Example: A worker earning \$600/week with 3 exemptions and who qualifies for two special exemptions would have the following withholding.

$(\$600 - [(\$53.85 \times 3) + (\$17.31 \times 2)]) \times 4.4\%$

$(\$600 - [\$161.55 + \$34.62]) \times .044$

$\$403.83 \times .044 = \17.77

employees who claim any of the following:

- 10 or more exemptions,
- exempt from withholding tax, or
- choose the No-Form option.

Also submit MI-W4s for employees who change their withholding status to exempt or claim No-Form.

Do not send copies of exemption certificates filed by:

- part-time or student employees whose expected earnings will be less than their exemption allowance.
- employees who claim exempt because they live in a reciprocal state, or

- employees who claim exempt for a stated time (e.g., two pay periods). Use the official MI-W4 form only; do not send copies of the federal W-4. The form is due 20 days after the employee is hired (i.e., the date the employee starts work).

Mail MI-W4s only to:

New Hire Operations Center
P.O. Box 85010
Lansing, MI 48909-5010

Submit only one MI-W4 if the employee claiming exemption or No-Form is a new employee. However, if you report your New Hire information magnetically or electronically, also send a paper copy of the MI-W4 for these employees to the address above.

Do not attach MI-W4 forms to the Sales, Use and Withholding tax return. Include copies of any written statement or explanation from the employee supporting the claim made on the MI-W4.

8. COMPENSATION

The term “compensation”, as used in this guide, covers all types of employee compensation including salaries, wages, vacation allowances, bonuses and commissions (as defined in the Federal Employer’s Tax Guide, Circular E, Taxable Wages).

9. FRINGE BENEFITS

Reporting and withholding on fringe benefits follows federal guidelines as provided in the Federal Employer’s Tax Guide, Circular E. Examples of fringe benefits include 401K plans, deferred compensation, profit sharing and cafeteria benefit plans.

10. SUPPLEMENTAL

UNEMPLOYMENT BENEFITS

Any employer required to withhold federal income tax from supplemental unemployment compensation benefits must also withhold Michigan income tax. Michigan follows the federal procedure regarding Employee Withholding Exemption Certificates.

11. HOW MUCH TO WITHHOLD

Determine the amount of tax withheld using a direct percentage computation or the withholding tables in this book.

The withholding rate is 4.4% of compensation after deducting the personal and dependency exemption allowance. If you prefer to compute a direct percentage, refer to the formula on page 3.

12. RECIPROCAL AGREEMENTS

Employers located in Michigan must withhold Michigan income tax from all compensation paid to non-resident employees for work done in Michigan, unless covered by a reciprocal agreement.

Michigan has entered into reciprocal agreements with the states of Illinois, Indiana, Kentucky, Minnesota, Ohio and Wisconsin. This means that a Michigan employer will not withhold Michigan income tax from residents of these states who work in Michigan. Employers in Illinois, Indiana, Kentucky, Minnesota, Ohio and Wisconsin will not withhold their state income tax from Michigan residents who work in their state. However, such employers may voluntarily register with the Michigan Department of Treasury to withhold Michigan income tax from Michigan residents who work in their states.

Certificate of Non-Residency

Michigan does not furnish non-residency certificates. The employer may develop a form of their own or they may obtain a letter from the employee. The form or letter should contain the employee’s name, legal address, Social Security number and a statement signed and dated by the employee that this is his or her legal address. The employer keeps the form as their authority not to withhold Michigan income tax.

13. REPORTING AND PAYING AMOUNTS WITHHELD

The Michigan Department of Treasury mails personalized returns with

instructions to all registered taxpayers. The return is a combined Sales, Use and Withholding taxes return. Do not use returns personalized for another taxpayer to file your tax.

Employers not liable for sales or use tax should complete only the withholding tax section on the return.

Follow the instructions enclosed with the personalized returns for when and where to file the return.

Taxpayers averaging more than \$40,000 a month in income tax withholding will be advised of a special accelerated payment schedule. They must make their payments using electronic funds transfer (EFT).

If you need tax forms, please contact Treasury at the address or telephone number listed on the back of this book.

14. STATEMENT OF WAGES & TAXES WITHHELD (W-2)

Every employer must furnish to each employee before January 31 of the succeeding tax year an annual statement (W-2) giving name, address, Social Security number, gross earnings and Michigan income tax withheld.

Employers may use one of the IRS approved combined W-2 forms available commercially.

15. ANNUAL RETURN

You must reconcile your income tax withheld every year. To do this, file the combined *Annual Return for Sales, Use and Withholding Taxes*. Employers not liable for sales or use tax should complete the withholding tax section of the return. A copy of the combined W-2 and a copy of the third party sick pay W-2 furnished to each employee must accompany the annual return. If tax was withheld, include a 1099 form with the return. (Do not attach W-2s or 1099s to the annual return.) Do not submit 1099s if there is **no** Michigan withholding.

If an employee quits or is fired before the end of the calendar year and is not expected to return to work

within the calendar year, a combined W-2 must be given to the employee no later than 30 days after the last payment of compensation.

If after reasonable effort you are unable to deliver the W-2s to an employee, follow the instructions in the Federal Employer's Tax Guide, Circular E.

16. W-2 REPORTING ON MAGNETIC MEDIA

Employers with 250 or more Michigan employees are required to file MI-W2 information on magnetic media. For current specifications and instructions, see your *Sales, Use and Withholding and Single Business Taxes Instruction Booklet (form C-3091)*. The October 1996 federal specifications are REQUIRED for reporting MI-W2 information on magnetic media.

If you need a magnetic media transmittal or have any questions about filing MI-W2 information on magnetic media, call (517) 373-9935.

17. EMPLOYER DISCONTINUANCE

If you go out of business or permanently stop being an employer, you must do all of the following

1. File a final monthly or quarterly return and pay all money due within 15 days after you discontinue business.
2. Furnish a completed combined W-2, Wage and Tax Statement, to each employee within 30 days after the last payment of compensation.
3. Complete and file with the Michigan Department of Treasury the combined *Annual Return for Sales, Use and Withholding Taxes* (form C-3204), together with the State of Michigan copy of the combined W-2 as furnished to each employee within 30 days after the last payment of compensation.

18. SUCCESSOR LIABILITY

If you sell your business, your successor must hold enough of the purchase money to satisfy the amount

of sales, use or withholding tax that may be due until you produce a receipt for payment of the tax from Treasury or a certificate stating that no tax is due. If the successor fails to withhold sufficient funds, he or she may be held liable for any debts.

19. OFFICER LIABILITY

The corporate officers who have control of filing returns and of making payments are personally liable for failure to file or for unpaid taxes, penalty and interest under P.A. 169 of 1982.

20. VOLUNTARY WITHHOLDING ON PENSION, ANNUITY AND THIRD PARTY PAYMENTS

Michigan permits voluntary income tax withholding from certain pension, annuity and third party sick pay payments if the payee requests it on a form provided by the payer. Treasury does not provide a form for this, but the amount requested to be withheld from the annuity payment must be a whole dollar amount of at least \$5 per month, which does not reduce the net amount of any annuity payment received by the payee below \$10. The payments must be payable over a period longer than one year.

A recipient may not request withholding on payments that are not subject to Michigan income tax. This includes any retirement or pension benefits received from a public retirement system created by the State of Michigan or any of its political subdivisions. It also includes any retirement or pension benefits received from Michigan public schools or from the federal government.

21. CORRECTING W-2 ERRORS

If you find an error in a W-2 after it has been issued to the employee, do not issue a corrected W-2 for less withholding than was on the original W-2. Corrections like this must be handled between the employer and the employee or by the employee on the *Michigan Income Tax Return*.

If the error was for more withholding than was on the original W-2, issue a corrected W-2 and send a copy to Treasury. The corrected form should be clearly marked "Corrected by Employer."

If a withholding error is discovered in the same calendar year as the error was made, adjust a later paycheck and make the same adjustment in the next payment due Treasury.

If an issued W-2 is lost or destroyed, give the employee a substitute copy clearly marked "Reissued by Employer."

22. RECORDS YOU MUST KEEP

You must keep all records pertinent to this tax available for inspection by Treasury. The records are similar to those necessary for federal income withholding as shown in the Federal Employer's Tax Guide, Circular E.

Records must show the amounts and dates of all compensation payments subject to this tax. Include employee name, address, Social Security number, *Withholding Exemption Certificate* (MI-W4), occupation and period of employment. Include records that show periods an employee was paid by the employer while absent from work due to sickness or personal injury. Show the amount and weekly rate of such payments. Keep duplicates of all returns filed.

These records should be kept at least six years after the date the tax to which they relate becomes due or the date the tax is paid, whichever is later.

22. PENALTIES

If you do not file a return or pay withheld taxes on time, you will be assessed with statutory penalties and interest.

Michigan Department of Treasury
Lansing, MI 48922

BULK MAIL
U.S. POSTAGE PAID
Michigan Dept. of Treasury

Treasury Field Offices

Treasury field offices no longer prepare tax returns. If you have questions, please call the Lansing office. Forms are available at all Treasury field offices. The offices are open 8 - 5 unless otherwise noted.

Main Office:

LANSING, 48922
Treasury Building
430 W. Allegan St.
517-373-3190

Deaf, hearing or speech impaired persons call 517-373-9419 (TTY).

Other Offices:

DETROIT, 48226
State of Michigan Plaza Building
1200 6th St., 2nd Floor, North Tower

ESCANABA, 49829
State Office Building, Room 7
305 Ludington St.
(open 8 - 12 only)

FLINT, 48502
State Office Building, 7th Floor
125 E. Union St.
(closed 12 - 1)

GRAND RAPIDS, 49503
State Office Building, 3rd Floor
350 Ottawa St., NW

KALAMAZOO, 49005-0286
535 S. Burdick St., Room 197
(closed 12 - 1)

PONTIAC, 48342
100 N. Saginaw St., Upper Level

SAGINAW, 48607
State Office Building, 4th Floor
411-I E. Genesee St.
(open 8 - 12 only)

TRAVERSE CITY, 49684
701 S. Elmwood Ave., Box 14
(open 8 - 12 only)